IN THE

Supreme Court of the United States

OCTOBER TERM, 1978

No. 77-1413

JANE ARONSON (FORMERLY KNOWN AS JANE LEOPOLDI),
Petitioner,

vs.

QUICK POINT PENCIL COMPANY,
A MISSOURI CORPORATION,
Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

BRIEF FOR THE PETITIONER

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TABLE OF CONTENTS

	PAGE
Opinions Below	1
Jurisdiction	1
Question Presented	2
Constitutional and Statutory Provisions Involved	2
Statement of the Case	3
Summary of Argument	6
Argument	9
I. The Decision Below Represents an Unwarranted Incursion Into State Law Which Is Not Required by Federal Patent Law	9
A. Federal Patent Law Preempts Only That State Law Which Stands as an Obstacle to the Accomplishment of the Objectives of the Federal Law	10
B. The Majority Below Failed Entirely to Apply the Test of Preemption Enunciated in Kewanee	12
C. Application of the Kewanee Test Leads Inescapably to the Conclusion That Enforcement of the Contract Here Will Not Conflict with the Objectives of the Federal Patent Law	13
II. The Cases Relied Upon by the Majority Below Do Not Support Its Decision but Instead Are Consistent with Enforcement of the Contract	15
III. The Decision Below Is Contrary to the Great Weight of Federal and State Authority	25
IV. In Straining to Find This Contract in Conflict with Federal Patent Policy the Court Below Ignored This Court's Warnings Against Unwarranted Invalidation of Private Contracts and Thereby Unnecessarily Imperiled Numerous Commercial Relationships and Transactions	33
Conclusion	36

Table of Authorities

Cases

American Airlines, Inc. v. Louisville & Jefferson County Air Board, 269 F. 2d 811 (6th Cir. 1959) 34

Bancroft & Rich v. Union Embossing Co., 72 N. H. 402, 57 A. 97 (1903) 30

Baltimore & O. Ry. v. Voigt, 176 U. S. 498 (1900) 34

Beattie v. Product Design & Engineering, Inc., 293 Minn. 139, 198 N. W. 2d 139 (1972) 29, 30

Bolt Associates, Inc. v. Alpine Geophysical Associates, Inc., 244 F. Supp. 458 (D. N. J. 1965) 29

Brulotte v. Thys Co., 379 U. S. 29 (1964) 7, 15, 18, 19, 22, 28

Cain v. White, 377 S. W. 2d 90 (Ky. 1964) 30

Cammack v. J. B. Slattery & Bro., Inc., 241 N. Y. 39, 148 N. E. 781 (1925) 30

Chandler v. Roach, 156 Cal. App. 2d 435, 319 P. 2d 776 (1957) 30

Choisser Research Corp. v. Electronic Vision Corp., 173 U. S. P. Q. 234 (Cal. Super. Ct. 1972) 29

Compco Corp. v. Day-Brite Lighting, Inc., 376 U. S. 234 (1964) 7, 15, 16, 17, 22, 25, 28, 29

Desny v. Wilder, 46 Cal. 2d 715, 299 P. 2d 257 (1956) .. 32

De Canas v. Bica, 424 U. S. 351 (1976) 11

Ekins v. Auto Arc-Weld Mfg. Co., 15 Ohio Op. 2d 300, 175 N. E. 2d 221 (C. P. 1955) 30

Erie R. R. Co. v. Tompkins, 304 U. S. 64 (1938) 26

Exxon Corp. v. Governor of Md., 98 S. Ct. 2207 (1978) 11

A. C. Frost & Co. v. Coeur D'Alene Mines Corp., 312 U. S. 38 (1941) 34

Goldstein v. California, 412 U. S. 546 (1973) 11

Heltra, Inc. v. Richen-Gemco, Inc., 395 F. Supp. 346 (D. S. C. 1975), *rev'd on other grounds*, 540 F. 2d 1235 (4th Cir. 1976) 30

Ingraham v. Schaum, 157 Pa. 88, 27 A. 404 (1893) ... 30

Jones v. Ulrich, 342 Ill. App. 16, 95 N. E. 2d 113 (1950) 30

Kelly v. Kosuga, 358 U. S. 516 (1959) 34

Kewanee Oil Co. v. Bicron Corp., 416 U. S. 470 (1974) 6, 7, 8, 10, 11, 12, 13, 14, 15, 23, 25, 28, 29

Laff v. John O. Butler Co., No. 77-567 (Ill. App. Ct., 1st Dist., July 21, 1978) 29

Lear, Inc. v. Adkins, 395 U. S. 653 (1969) 7, 15, 20, 21, 22, 23, 25, 28, 29, 30, 32

John E. Mitchell Co. v. Anderson, 520 S. W. 2d 927 (Tex. Civ. App. 1975) 29

Muzak Corp. v. Hotel Taft Corp., 1 N. Y. 2d 42, 133 N. E. 2d 688 (1956) 30

Pollack v. Angelus Block Co., 171 U. S. P. Q. 182 (Cal. Super. Ct. 1971) 29

Richardson v. Mellish, 2 Bing. 229, 130 Eng. Rep. 294 (C. P. 1824) 34

Richter v. Westab, Inc., 529 F. 2d 896 (6th Cir. 1976) .. 30

Sandlin v. Johnson, 141 F. 2d 660 (8th Cir. 1944) 30

Schnack v. Applied Arts Corp., 283 Mich. 434, 278 N. W. 117 (1938) 30

Schonwald v. F. Burkart Mfg. Co., 356 Mo. 435, 202 S. W. 2d 7 (1947) 30

Sears, Roebuck & Co. v. Stiffel Co., 376 U. S. 225 (1964) 7, 15, 16, 17, 22, 25, 28, 29, 30

Sinclair v. Aquarius Electronics, Inc., 42 Cal. App. 3d 216, 116 Cal. Rptr. 654 (1974) 29

Shepard v. Commissioner, 57 T. C. 600 (1972) 28

Sloan v. Mud Products, Inc., 114 F. Supp. 916 (N. D. Okla. 1953) 30

Starley v. Columbia Broadcasting Systems, Inc., 35 Cal. 2d 653, 221 P. 2d 73 (1950) 32

Steele v. Drummond, 275 U. S. 199 (1927) 34

Sunday v. Novi Equipment Co., 290 Mich. 539, 287 N. W. 909 (1939) 30

Twin City Pipe Line Co. v. Harding Glass Co., 283 U. S. 353 (1931) 34

Warner-Lambert Pharmaceutical Co. v. John J. Reynolds, Inc., 178 F. Supp. 655 (S. D. N. Y. 1959), *aff'd*, 280 F. 2d 197 (2d Cir. 1960) 5, 8, 25, 26, 27, 28, 29, 30

Williams Petroleum Co. v. Midland Cooperatives, Inc., 539 F. 2d 694 (10th Cir. 1976) 30

Wrigley v. Compudyne Corp., 390 F. Supp. 478 (E. D. Pa. 1975) 30

Texts

McCarthy, *"Unmuzzling" the Patent Licensee: Chaos in the Wake of Lear* v. *Adkins,* 45 Geo. Wash. L. Rev. 429 (1977) 31

Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters,* 46 N. Y. U. L. Rev. 17 (1971) 31

1 Milgrim, TRADE SECRETS, § 1.06 (1977) 29

1 Milgrim, TRADE SECRETS, § 6.05[2][d] (1977) 31

Constitution and Statutes

Constitution of the United States:

Article I, Section 8, Clause 8 ....2, 5, 16

Article VI, second paragraph 2, 17

28 U. S. C. § 1254(1) 2

28 U. S. C. § 1332 5

35 U. S. C. § 101 3

35 U. S. C. § 122 ....21, 23

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OPINIONS BELOW

The opinion of the United States Court of Appeals for the Eighth Circuit is reported at 567 F.2d 757, and is printed in the Appendix at page 66. The Findings of Fact and Conclusions of Law of the United States District Court for the Eastern District of Missouri, Eastern Division, are reported at 425 F. Supp. 600, and printed in the Appendix at page 61. The District Court did not render a separate opinion.

JURISDICTION

The judgment of the Court of Appeals for the Eighth Circuit was entered on December 8, 1977 (App. 84). Petitioner's timely filed petition for rehearing was denied January 4, 1978 (App.

85). The Petition for writ of certiorari was filed on April 4, 1978, and was granted on June 5, 1978. The jurisdiction of this Court is invoked under 28 U. S. C. § 1254(1).

QUESTION PRESENTED

Does federal patent law preempt state contract law and prevent enforcement of an agreement calling for continuing payments upon the manufacture of an article any time the article which is the subject of the agreement ceases to be secret and is not covered by a valid patent?

More specifically, does an agreement valid under state contract law by which an inventor discloses a secret and previously unknown article for purposes of having it manufactured, in return for the manufacturer's promise to make payments as long as it sells the article, conflict with the patent law simply because the article is not patentable and the sale of it by the manufacturer makes it known to the public?

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

CONSTITUTION OF THE UNITED STATES:

Article I, Section 8, Clause 8.

The Congress shall have Power . . .

> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries. . . .

Article VI, second paragraph.

> This Constitution, and the Laws of the United States which shall be made in Pursuance thereof . . . shall be the supreme Law of the Land; . . . any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

STATUTES:

35 U. S. C. § 101.

> Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

STATEMENT OF THE CASE

In June, 1956, Petitioner Aronson and her agent, Norbert Leopoldi, went to the offices of Respondent Quick Point Pencil Company in St. Louis, Missouri, and met with Quick Point's president, G. A. Goessling (since deceased). Under an obligation of confidence, they disclosed to Goessling the design of a keyholder which was then not publicly known but which was described in a patent application which had been filed by Aronson on October 25, 1955 (App. 17, 18, 55). At the close of the negotiating session, Goessling set forth a proposed license agreement in a letter to Aronson, dated June 26, 1956 (App. 17). The letter provided that Quick Point "will have the exclusive right to make and sell keyholders of the type shown in your application, Serial No. 542677", that Quick Point would "start manufacturing within 60 days after you indicate your acceptance of the following terms" and that "the royalty rate will be five percent of our selling price . . . on all keyholders which we make in accordance with the design shown in your application" (App. 23).

Upon receipt of the letter, Aronson, through Leopoldi, telephoned Goessling and an addendum to Goessling's proposal was prepared and signed and became a part of the agreement (App. 17). That addendum provided that "In the event that the Keyholder Patent Application number 542677 is not allowed within five (5) years, Quick Point Pencil Co. agrees to pay Jane [Aronson] two and one-half percent (2½%) of

sales, at selling prices, as long as you continue to sell same" (App. 25).

In July, 1956, Quick Point began manufacturing the keyholders (App. 18), and continues to manufacture them today (App. 21).

Patent application No. 542677 was finally rejected by the Patent Office Board of Appeals on September 27, 1961, and was thereafter abandoned (App. 20). Even though Quick Point knew of the rejection and abandonment of the patent application, it continued to pay royalties (App. 19).

In 1961, while the patent application was still pending, a dispute arose between the parties concerning whether Leopoldi was prevented by the Aronson-Quick Point agreement from licensing another keyholder covered by another patent application to someone other than Quick Point (App. 56). In connection with that dispute, Quick Point's patent lawyer wrote a letter to Aronson:

> "We remind you that your license agreement is in respect of the disclosure of said Jane [Aronson] application (not merely in respect of its claims) and that even if no patent is ever granted on the Jane [Aronson] application, Quick Point Pencil Company is obligated to pay royalties in respect of any key holders manufactured by it in accordance with any disclosure of said application." (App. 39).

The keyholder was such that once it was put on the market by Quick Point it could be copied by others, and, in fact, by the late 1960's, others had copied it and were selling similar keyholders in competition with Quick Point (App. 20).

Quick Point paid Aronson five percent of its sales until June 26, 1961. On that date, five years after the date of the agreement, the payments were reduced to two and one-half percent, in accordance with the contract (App. 18), and Quick Point continued to pay Aronson two and one-half percent of its sales until October 1, 1975 (App. 19).

On November 18, 1975, Quick Point brought this action for a declaratory judgment that it has no further liability to make payments under its agreement with Aronson. Jurisdiction of the district court was based upon diversity of citizenship, 28 U. S. C. § 1332. The complaint alleged that the license agreement between Quick Point and Aronson was unenforceable because it conflicted with Article I, Section 8, Clause 8 of the United States Constitution by providing for royalty payments on an unpatented and unpatentable article. The complaint also alleged that the agreement was void, invalid and unenforceable as a restraint of trade and indefinite, uncertain and ambiguous with respect to its terms.

The parties waived a trial and the matter was decided by the district court on a record consisting of a stipulation of uncontested facts and affidavits in support of cross-motions for summary judgment (App. 59). The district court concluded that the contract is valid and enforceable and obligates Quick Point to continue paying the agreed amounts so long as Quick Point continues to make and sell the keyholder which is the subject of the contract.

Quick Point appealed to the United States Court of Appeals for the Eighth Circuit. In a two-to-one decision, the court reversed the district court and held that the principles embodied in federal patent law preclude Quick Point's being bound by the contract's royalty provisions because Aronson abandoned the patent application, no patent was ever obtained on the keyholder and it had become publicly known. Senior District Judge Larson, sitting by designation, argued in dissent that the case should be governed solely by state contract law, that the mere existence of a patent application could not require, as a matter of federal policy, that the royalty obligation cease once the patent application was abandoned, and that the majority decision irreconcilably conflicted with *Warner-Lambert Pharmaceutical Co.* v. *John J. Reynolds, Inc.*, 178 F. Supp. 655 (S. D. N. Y. 1959), *aff'd*, 280 F. 2d 197 (2d Cir. 1960).

SUMMARY OF ARGUMENT

This is a simple contract case in which the district court, applying state contract law, enforced the agreement of the parties and refused to find any conflict with federal patent policy. The majority of the court of appeals, however, in its rush to dissolve the contract, disregarded the district court, ignored the voice of the dissent, and closed its eyes and ears to the pronouncements of this Court as to what federal patent policy *is* and how conflicts between that policy and state law are to be evaluated.

The most egregious error of the majority below was its failure to adhere to *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U. S. 470 (1974), where the Court set forth the test to be applied in determining whether state law should be preempted by federal patent law. This Court held that federal patent law preempts only that state law which stands as an obstacle to the accomplishments of the objectives of the federal patent law. Those objectives are two-fold: the encouragement of invention and the public disclosure of inventions through patenting.

Under *Kewanee* the issue in this case is whether the enforcement of the contract impermissibly conflicts with the objectives of the federal patent law. Enforcement of the state-created rights in this contract will discourage neither invention nor public disclosure of inventions. In fact, the opposite is true. The opportunity to obtain continuing royalties on an invention, whether or not it is ultimately patentable or can be kept secret, is an important economic incentive, particularly for private and small inventors. The majority has severely limited that contract right and thus discouraged invention and disclosure. Enforcement of state contract law here is wholly consistent with federal patent policy and no reason exists for a federal court to preempt that law. The decision of the court of appeals thus constitutes an unnecessary incursion into state law.

Not only did the majority below fail even to consider, much less apply, the preemption test enunciated in *Kewanee*, it also based its decision upon a misreading of several prior decisions of this Court: *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225 (1964), *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U. S. 234 (1964), *Brulotte* v. *Thys Co.*, 379 U. S. 29 (1964) and *Lear, Inc.* v. *Adkins*, 395 U. S. 653 (1969).

In *Sears* and *Compco* the issue was whether a state's unfair competition law could be permitted to give an inventor a monopoly even though the patent on his invention was declared invalid. Neither case involved the question of enforcement of a private contract. In both, a contrary decision would have given the inventor a monopoly prohibiting the public from copying a publicly disclosed device. The Court concluded that the state unfair competition law clashed with the objectives of the federal patent laws because it gave the inventor a monopoly equivalent to that granted by a federal patent without meeting the rigid standards of invention established by Congress in the patent law. Here, no monopoly is granted to anyone; no right to exclude the public is sought.

Brulotte similarly supports enforcement of the contract because the Court there carefully pointed out that the case was not like one in which non-patented articles are involved. The rationale of *Brulotte*, that a patentee may not misuse or attempt to expand the patent monopoly granted him is inapplicable here where neither the inventor nor her licensee has exclusivity and neither may resort to the courts to obtain it. Aronson has taken nothing from the public which possibly justifies taking from her the right the state says she has under normal contract law.

Lear v. *Adkins* expressly left open the question decided by the court of appeals here. *Lear* did decide that the doctrine of licensee estoppel prevented or discouraged challenges to the validity of a licensed patent by the licensee and thus conflicted with the federal policy of encouraging challenges to invalid patents. That policy has no application here because there is no

patent involved. There was a patent application, but it took nothing from the public and gave Aronson no monopoly or right to exclude others from the use of her invention. The mere existence of a secret patent application raises no issue of federal preemption, does not mean enforcement of this contract conflicts with the objectives of federal patent law, and certainly does not justify the drastic step of striking down state contract law.

Nothing in these cases supports the conclusion that state contract law should be preempted to preclude enforcement of the state-created rights in this contract or that contracts relating to ideas that subsequently come into general circulation are invalid. The decision below amounts to a reversion to the discredited doctrine that the patent law is exclusive—a doctrine soundly rejected by this Court in *Kewanee.*

The decision below is also contrary to the great weight of federal and state authority. The leading case upholding a license agreement involving an unpatented idea which later becomes public is *Warner-Lambert Pharmaceutical Co.* v. *John J. Reynolds, Inc.*, 178 F.Supp. 655 (S. D. N. Y. 1959), *aff'd*, 280 F.2d 197 (2d Cir. 1960). That case is on all fours with this case and reached a diametrically opposite result. It is clearly the better-reasoned authority.

Since the decision below is that any contract conveying a secret idea in return for continuing payments is invalid once the idea becomes public if not covered by a valid patent, it imperils a large volume of business transactions involving the licensing of ideas which can neither be patented nor kept secret. Such drastic consequences are in no way required by the patent law and do not attain any objective sought by the Congress in establishing the federal patent system. Furthermore, the court of appeals ignored this Court's warnings that caution should be used in striking down private contracts on grounds of public policy and that federal courts should not interfere with the enforcement of state-created contractual rights unless a conflict with federal patent policy is both unquestioned and sig-

nificant. Here the conflict is not merely insignificant, it is nonexistent.

Finally, by the contract here, Quick Point gained access to Aronson's invention, thus receiving an invaluable head start in making and selling it. When this contract was signed in 1956, neither Quick Point nor Aronson could know that the invention would sell as well or for as long as it has. Had the device been unsuccessful Aronson would have received little, and this case would not even be here. But the device *was* successful and that fact should not permit Quick Point to deny Aronson the participation in that success it promised her. There is no reason for the federal courts to intrude into the normal application of state law in this case. To do so not only conflicts with the very policy of the federal patent law the courts should be fostering but also results in a manifest injustice for Jane Aronson in particular and for all small inventors generally.

ARGUMENT

I. The Decision Below Represents an Unwarranted Incursion Into State Law Which Is Not Required by Federal Patent Law.

The district court below held this case should be governed by state contract principles and that there was no reason under federal patent law for the federal courts to interfere with the ordinary application of state law. The majority in the court of appeals below rejected that conclusion holding that enforcement of the contract "would undermine the strong federal policy favoring the full and free use of ideas in the public domain" (App. 71). The court of appeals held that since Aronson abandoned her efforts to obtain a patent on the keyholder and Quick Point's manufacture and sale of the keyholder meant that it was no longer secret, the policy of the federal patent law preempted state contract law and relieved Quick Point of its liability to pay royalties in accordance with the agreement.

The effect of the decision of the majority below is that a contract calling for the payment of royalties upon the manufacture of an article (or the use of a process or any other form of idea or invention) is valid and binding upon the manufacturer only (a) if there is an existing patent, or (b) so long as the article remains a secret. Under this decision, any time the article becomes known to others and there is no patent which would entitle its inventor to exclude the public from making, using or selling it, the manufacturer under a contract—no matter how explicit its language to the contrary may be—is free to make the article without payment of the contracted-for royalties.

This unnecessary interference with the ordinary application of state contract law was erroneous because (a) this Court held in *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U. S. 470 (1974), that federal patent law preempts only that state law which stands as an obstacle to the accomplishment of the objectives of the federal law; (b) the majority of the court of appeals failed entirely to apply the test of preemption enunciated in *Kewanee;* and (c) application of that test leads inescapably to the conclusion that enforcement of the state-created rights in the contract will not in any way conflict with the objectives of the federal patent law.

A. Federal Patent Law Preempts Only That State Law Which Stands as an Obstacle to the Accomplishment of the Objectives of the Federal Law.

This Court had occasion in *Kewanee Oil Co.* v. *Bicron Corp.*, *supra,* to consider in detail the constitutional underpinning and policy embodied in the federal patent law. In that case, the petitioner had brought an action seeking injunctive relief and damages for misappropriation of trade secrets by former employees. The trade secrets involved were patentable subject matter but had been in commercial use for more than one year and were therefore unpatentable. The district court, applying Ohio trade secret law, permanently enjoined the disclosure or

use of certain of the trade secrets. The court of appeals reversed based on its determination that the Ohio trade secret law was in conflict with federal patent law. This Court granted review to determine whether state trade secret protection is preempted by operation of federal patent law. 416 U. S. at 472. The Court held that it is not so preempted.

The Court first explored the differences between trade secrets and patents. The protection accorded a trade secret is against those to whom the secret has been disclosed in confidence or who gain knowledge of it by improper means (*e.g.*, theft). There is no protection against independent discovery, accidental disclosure, or "reverse engineering", *i.e.*, starting with the known product and working backward to divine the trade secret. On the other hand, those inventions meeting the standards of the patent law and which are granted a patent receive a 17-year "right of exclusion" (416 U. S. at 478) which prohibits anyone else from copying the invention or independently creating it.

The Court held that the states are *not* forbidden to act in the area of protection of intellectual property, relying on its decision in *Goldstein* v. *California,* 412 U. S. 546 (1973), where it held that the power granted Congress by Article I, § 8, cl. 8 to secure exclusive rights to writings and discoveries of authors and inventors is not an exclusive grant. In *Kewanee* the Court found that under the Constitution the states may regulate with respect to discoveries so long as they do not conflict with the operation of laws passed by Congress in this area. 416 U. S. at 479.

Determining whether such a conflict exists, the Court said, "involves a consideration of whether that law 'stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress' ". 416 U. S. at 479.* The

* The Court has stated many times that it is reluctant to infer preemption of state law. *See, e.g.*, De Canas v. Bica, 424 U. S. 351, 357-58, n. 5 (1976) and Exxon Corp. v. Governor of Md., 98 S. Ct. 2207, 2217 (1978).

Court noted that the "stated objective of the Constitution in granting the power to Congress to legislate in the area of intellectual property is to 'promote the Progress of Science and useful Arts' ". 416 U. S. at 480. Accordingly, the purpose of the patent law is to encourage invention. It does so by granting the inventor a 17-year right to exclude others from using the patented invention in exchange for requiring full disclosure to the public of the invention so that any person skilled in the art may use the invention after the expiration of the 17-year term of the patent. As noted in *Kewanee*, this "disclosure, it is assumed, will stimulate ideas and the eventual development of further significant advances in the art". 416 U. S. at 481.

Thus, in *Kewanee* the Court held that to decide whether state law is preempted by federal patent law it is necessary to determine whether the state law stands as an obstacle to the encouragement of invention and the public disclosure of inventions through the issuance of patents.

B. The Majority Below Failed Entirely to Apply the Test of Preemption Enunciated in Kewanee.

The court of appeals below ignored the teaching of *Kewanee* and made absolutely no analysis of how enforcement of the contract involved here would "stand as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress" in enacting the patent law. Although the dissent correctly pointed out that it is *Kewanee* to which the court should look for guidance in answering the question before it (App. 79), the majority merely reiterated the holding of *Kewanee* that state trade secret laws protecting unpatented but patentable inventions do not conflict with the patent law policy of disclosure (App. 71). The majority made no attempt to determine whether enforcement of contracts of the type involved in this case would discourage invention or discourage the seeking of patents.

C. Application of the Kewanee Test Leads Inescapably to the Conclusion That Enforcement of the Contract Here Will Not Conflict with the Objectives of the Federal Patent Law.

Enforcement of the state-created rights in the contract involved in this case will not discourage invention or in any way conflict with the purposes of the federal patent law outlined in *Kewanee*. As pointed out by Judge Larson in his dissent, enforcement of this contract would not provide a disincentive to patent any invention which is patentable (App. 81). Unlike state trade secret law, which the Court found in *Kewanee* might provide *some* disincentive to patenting, the state contract law involved in this case provides *no* disincentive to patenting.

In fact, it is the decision below which will discourage innovation by those who would otherwise spend time, money and effort to develop new articles or designs in the expectation that they can enter into contracts with manufacturers to pay royalties for the use of the development irrespective of whether it is patentable. Under the majority decision, the only alternative such inventors will have if their invention is unpatentable is to attempt to negotiate a large lump sum payment for the disclosure of their design. However, few manufacturers are willing to make such lump sum payments since they cannot predict the success of the product. The decision below is particularly egregious with respect to small inventors because it eliminates the economic incentive provided by the normal operation of state contract law. Such an effect of discouraging inventors is directly contrary to the federal policy of encouraging innovation which this Court reemphasized in *Kewanee*.

By the same token, the decision below will result in fewer disclosures of inventions to the public. As noted in *Kewanee*, "The holder of a trade secret would not likely share his secret with a manufacturer who cannot be placed under binding legal obligation to pay a license fee . . ." 416 U. S. at 486. Thus, the result of precluding agreements of the type involved here would be "to hoard rather than disseminate knowledge". 416 U. S. at

486. The agreement in this case resulted in the design of the keyholder becoming known not only to Quick Point but also to Quick Point's competitors who saw and copied the design (App. 20). That design not only became available to the public but it may very well have contributed to the design of other keyholders, which, while not identical, were suggested by or invented as a result of the success of the keyholder licensed by Aronson.

This Court said in *Kewanee* that "[w]hen a patent is granted and the information contained in it is circulated to the general public and those especially skilled in the trade, such additions to the general store of knowledge are of such importance to the public weal that the Federal Government is willing to pay the high price of 17 years of exclusive use for its disclosure. . . ." 416 U. S. at 481. If the framers of the patent law felt that public disclosure was worth that high price, the encouragement of disclosure by agreements of the type involved here is certainly worth the relatively modest price of requiring the single manufacturer who had the benefit of first disclosure to live up to his contract to pay royalties.

The following statement by the Court in *Kewanee* concerning trade secret law is equally applicable to the state contract law which would enforce the agreement here:

> "Trade secret law encourages the development and exploitation of those items of lesser or different invention than might be accorded protection under the patent laws, but which items still have an important part to play in the technological and scientific advancement of the Nation. Trade secret law promotes the sharing of knowledge, and the efficient operation of industry; it permits the individual inventor to reap the rewards of his labor by contracting with a company large enough to develop and exploit it." 416 U. S. at 493.

The fundamental question involved in this case is whether or not enforcement of the contract impermissibly conflicts with the objectives of federal patent law. Based on *Kewanee* it is

obvious that no such conflict exists and thus there is no reason for the federal courts to preempt the operation of state law in this case.

II. The Cases Relied Upon by the Majority Below Do Not Support Its Decision But Instead Are Consistent with Enforcement of the Contract.

Not only did the majority below fail to apply the federal preemption analysis enunciated in *Kewanee*, but it also misread the decisions upon which it did rely. An examination of *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225 (1964), *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U. S. 234 (1964), *Brulotte* v. *Thys Co.*, 379 U. S. 29 (1964), and *Lear, Inc.* v. *Adkins*, 395 U. S. 653 (1969), the cases relied upon by the majority below, shows that they fail to support the reasoning of the majority opinion and are fully consistent with the enforcement of the contract.

Sears and Compco

In *Sears*, Stiffel had brought an action against Sears for patent infringement and unfair competition in selling lamps similar to Stiffel's patented lamps. The district court, after holding Stiffel's patents invalid, found that Sears' sales of "a substantially exact" copy of Stiffel's lamp constituted unfair competition under Illinois law and enjoined Sears from attempting to sell lamps identical or confusingly similar to Stiffel's.

This Court held that a state's unfair competition law could not prohibit the copying of an article which is not protected by a federal patent. The Court said:

> "An unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever chooses to do so. . . . To allow a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the

> public something which federal law has said belongs to the public. The result would be that while federal law grants only 14 or 17 years' protection to genuine inventions . . ., States could allow perpetual protection to articles too lacking in novelty to merit any patent at all under federal constitutional standards. This would be too great an encroachment on the federal patent system to be tolerated." 376 U. S. at 231-32.

That same day the Court rendered its opinion in a companion case, *Compco*. That case involved a patent infringement and unfair competition claim concerning the copying of a light fixture covered by a design patent. The district court again held the patent invalid but enjoined copying of the fixture under Illinois law. This Court said:

> "Today we have held in [*Sears*], that when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article. To forbid copying would interfere with the federal policy, found in Art. I, § 8, cl. 8, of the Constitution and in the implementing federal statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain. Here Day-Brite's fixture has been held not to be entitled to a design or mechanical patent. Under the federal patent laws it is, therefore, in the public domain and can be copied in every detail by whoever pleases." 376 U. S. at 237-38.

The above quoted passages show how different this case is from *Sears* and *Compco* both in fact and in principle. Neither *Sears* nor *Compco* involved enforcement of a contract. Instead, in those cases the plaintiffs, though deprived of federal patent protection, were attempting to use state law to set up what amounted to a state patent system. As the Court noted, 376 U. S. at 229-31, the federal patent system grants the patentee a statutory monopoly for a specific term of years once rigid standards of invention established by Congress are met. Once the period of the grant is up, the right to make the article, including exact copies, passes to the public. Under the lower court rulings in *Sears* and *Compco*, however, the plaintiffs had received perpetual

injunctions prohibiting the copying of articles which had been found unpatentable. In one fell swoop under Illinois unfair competition law they received a monopoly which in effect prohibited the entire public from making the articles without any time limitation and without meeting any standards of invention. This Court correctly noted that under the Supremacy Clause a state may not extend the life of a federal patent beyond its expiration date nor grant a patent on an article which lacks the level of invention required for federal patents. The heart of the ruling in *Sears*, as it applies to this case, is:

> "Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws." 376 U. S. at 231.

As noted above, enforcing this *contract* under general principles of state contract law does not clash with the objectives of the federal patent laws. Forcing Quick Point to adhere to its agreement to pay the specified royalties so long as it makes the keyholder does not "block off from the public" anything involved in this case. *Cf. Sears*, 376 U. S. at 232. Any member of the public who is not a party to this contract may copy the keyholder and make it without any obligation whatsoever. That is exactly what has occurred (App. 20, 57). Even Quick Point is not prohibited from making the article; it is merely required to adhere to its agreement to pay a royalty if it does so. As noted by Judge Larson in his dissent (App. 80), the fact that strangers to this contract have every right to copy the keyholder and have done so distinguishes this situation from the problem involved in the enforcement of unfair competition law faced in *Sears* and *Compco*. The sole question here is not whether state law—be it contract or otherwise—can be used to prevent the public from copying an unpatented article. Rather, it is whether the states can validly require a party to live up to its agreement to pay another compensation for the manufacture of an unpatented article which was secret at the time of disclosure.

Brulotte v. Thys

The majority below erroneously concluded that *Brulotte* v. *Thys Co.*, 379 U. S. 29 (1964), also supports its conclusion. In that case certain patented machines were sold for a flat sum and their use was licensed under an agreement calling for continuing royalties. The license referred to several patents incorporated in the machines, all of which had expired by 1957 although the license agreements extended beyond that date and, in effect, required royalty payments on expired patents. This Court held that a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful *per se*. 379 U. S. at 32. The rationale of the decision is that requiring royalty payments after a patent expires amounts to an extension of the patent monopoly past the time the law requires it to cease.

The Eighth Circuit relied on *Brulotte* for the proposition that if Aronson were successful in obtaining a patent on her keyholder, she could only collect royalties during the 17 year existence of the patent. The court apparently felt that to require Quick Point to pay royalties for a longer period of time where no patent was obtained would somehow violate federal patent policy (App. 71, 73).

But *Brulotte* expressly repudiated that theory and carefully distinguished situations in which no patent is involved. Thus, the Court noted that the case before it was not "like the hypothetical ones put to us where nonpatented articles are marketed at prices based on use". 379 U. S. at 31. More importantly, the Court pointed out:

> "The sale or lease of *unpatented* machines on long-term payments based on a deferred purchase price or on use would present wholly different considerations. Those arrangements seldom rise to the level of a federal question." 379 U. S. at 32. (Emphasis in the original.)

A contract by which a manufacturer obligates itself to pay for the use of an unpatented *idea* is no different from a contract by

which a purchaser of an unpatented *machine* obligates itself to pay for the use of that machine. The effect on the patent system in both cases is nil.

The mere fact that the payment of royalties under the contract means that the licensee will make less profit does not render the obligation contrary to the federal policy encouraging innovation. Indeed, there are innumerable examples of businesses becoming obligated to pay a royalty, commission, or other fee to another either for a fixed or an indefinite period of time. For example, a salesman or manufacturers' representative may secure a particular account for a business in return for a commission on sales to that account so long as the business makes any such sales, even though he thereafter performs no service. Similarly, Quick Point and Aronson could have structured this agreement as a joint venture in which Aronson contributed her theretofore secret design (or the capital to develop it) and Quick Point agreed to manufacture and market the product, with Aronson to receive 5% of the sales for 5 years and 2½% thereafter so long as the joint venture continued to manufacture and sell the product. No one would suggest that such contracts were illegal or unenforceable and yet their effect is no different from that involved in this case.

The error of the court below results from a failure to understand the rationale behind *Brulotte* and other cases which have struck down contractual or other devices by which a patentee sought to expand the monopoly granted him by the patent. At the foundation of those cases is the fact that a patent gives the inventor something otherwise unobtainable (*i.e.*, the right to exclude all others during the term of the patent) and in return the public is entitled to expect that he will not misuse the patent nor attempt to expand the monopoly so granted. It is one thing to require a patentee to forego his right to obtain royalties for a period longer than 17 years in return for the exclusivity which the patent gives him (or his licensee) during those 17 years at the expense of the public. It is quite different when, as here, no

patent is granted because under these circumstances neither the inventor nor her licensee has exclusivity and neither may resort to the courts to obtain it. Thus, Aronson has taken nothing from the public which possibly justifies taking from her the rights the state says she has under normal contract law.

Lear v. Adkins

The majority below considered that the decision in *Lear, Inc.* v. *Adkins*, 395 U. S. 653 (1969), requires that Quick Point not be bound by its agreement. In fact, however, *Lear* expressly left open the question presented here.

In *Lear*, Adkins licensed Lear to use an invention which was covered by a patent application previously filed by Adkins. The parties agreed that if no patent were issued (or any issued patent held invalid) Lear could terminate the contract. While Adkins' patent application was still pending, Lear became convinced no patent would be issued and told Adkins it would no longer pay royalties on the use of his invention. Lear stopped the payments but continued to use the invention. Thereafter, Adkins was issued a patent and immediately sued Lear under the contract for royalties accrued since Lear stopped paying. Lear sought to raise patent invalidity as a defense but the California Supreme Court, relying on the doctrine of licensee estoppel, held that Lear could not challenge the patent and that it must pay the royalties to Adkins.

This Court held that there is an important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Thus encouraging challenges to invalid patents is an important aspect of federal patent policy which the doctrine of licensee estoppel frustrated by muzzling the one person (the licensee) with the most incentive to make such a challenge. The Court noted that if licensees are so muzzled "the *public* may continually be required to pay tribute to would-be monopolists without need or justification". 395 U. S. at 670 (emphasis supplied). It thus concluded

that there was a conflict between the state's estoppel doctrine and the federal patent policy, and that "the technical requirements" of the estoppel doctrine must give way. 395 U. S. at 670.

As part of its consideration of the estoppel doctrine, the Court also raised the question of the recovery of the contracted-for royalties by Adkins. As the Court noted, the Lear license was entered into five years before the patent issued. Thus Lear obtained special access to Adkins' ideas in return for its promise to pay satisfactory compensation. Since patent applications are secret, 35 U. S. C. § 122, Lear had gained "an important benefit" not generally obtained by the typical patent licensee. By promising to pay royalties beginning in 1955, Lear gained immediate access to ideas it might not have learned until the patent issued in 1960. The Court said:

> "At the core of this case, then, is the difficult question whether federal patent policy bars a State from enforcing a contract regulating access to an unpatented secret idea." 395 U. S. at 672. (footnote omitted).

The Court chose not to answer this question. It did hold that in order not to discourage challenges to patents Lear did not have to pay royalties accruing *after* the patent issued while it challenged its validity. However, with respect to pre-issuance royalties the Court said:

> "Adkins' claim to contractual royalties accruing before the 1960 patent issued is, however, a much more difficult one, since it squarely raises the question whether, and to what extent, the States may protect the owners of *unpatented* inventions who are willing to disclose their ideas to manufacturers only upon payment of royalties. . . . Our decision today will, of course, require the state courts to reconsider the theoretical basis of their decisions enforcing the contractual rights of inventors and it is impossible to predict the extent to which this reevaluation may revolutionize the law of any particular State in this regard. Consequently, we have concluded, after much consideration, that even though an important question of federal law underlies this phase of the controversy, we should not now attempt to

define in even a limited way the extent, if any, to which the States may properly act to enforce the contractual rights of inventors of unpatented secret ideas. Given the difficulty and importance of this task, it should be undertaken only after the state courts have, after fully focused inquiry, determined the extent to which they will respect the contractual rights of such inventors in the future."* 395 U. S. at 674-75. (Emphasis in the original.)

Mr. Justice Black, joined by Mr. Chief Justice Warren and Mr. Justice Douglas, dissented from that part of the opinion which reserved for future decision "the question whether the States have power to enforce contracts under which someone claiming to have a new discovery can obtain payment for disclosing it while his patent application is pending, even though the discovery is later held to be unpatentable". 395 U. S. at 676. Justice Black felt the reservation of the question conflicted with *Sears* and *Compco* and that private contracts under which inventors disclose their unpatented discoveries in return for contractual payments run counter to the plan of the federal patent laws.

Mr. Justice White, in his partial concurrence, felt the Court had no reason to raise or consider the question of the payment of royalties before or after the issuance of the patent, noting, however, that to the extent post-issuance royalties represent payment for the pre-issuance disclosure of the idea they seem indistinguishable from pre-issuance royalties at least for purposes of federal patent law. 395 U. S. at 682, n. 2.

As can be seen from the opinions in *Lear*, far from requiring the conclusion of the majority below, this Court expressly left

* It should be noted that Mr. Justice Harlan, author of the majority opinion in *Lear*, had indicated in his dissenting opinion in *Brulotte* that he thought such contracts would be enforceable:

> "It is equally unquestionable, I take it, that if Thys had had no patent or if its patent had expired, it could have sold its machines at a flexible, undetermined price based on use; for example, a phonograph record manufacturer could sell a recording of a song in the public domain to a juke-box owner for an undetermined consideration based on the number of times the record was played." 379 U. S. at 34. (Harlan, J., dissenting.)

open the question of the enforceability of contracts calling for royalties on non-patented inventions, and therefore refused to decide the enforceability of a contract for royalties during the pendency of a patent application. The majority below has decided the question left unanswered in *Lear*, at least in those situations where the sale of the licensed article discloses the invention. However, in doing so, it ignored both the clear teaching of *Kewanee* and this Court's direction in *Lear* to reconsider the theoretical basis for enforcing such contracts and reconcile the competing demands of contract and patent law. Instead, the court of appeals looked to the dissent in *Lear* of Justices Black, Warren and Douglas, and quoted the statement of Mr. Justice Black that the "national policy expressed in the patent laws . . . cannot be frustrated by private agreements among individuals, with or without the approval of the State", as if it represented the decision of the Court. (App. 70).

The policy underlying the Court's decision on the issue that *was* decided in *Lear* does not require that the contract involved here be declared unenforceable. That policy is that it is contrary to the public interest to have invalid patents go unchallenged. Since a patent licensee is perhaps uniquely qualified and motivated to challenge the validity of a patent, state contract law preventing or discouraging him from challenging the licensed patent's validity directly conflicts with the federal policy encouraging such challenges. But that policy has no application to this case because here there is no patent to be declared invalid.

The majority below recognized that no patent is involved but placed controlling reliance upon the fact that a "patent application is involved" (App. 70). But a patent application is not a patent. It takes nothing from the public and gives the inventor no monopoly or right to exclude the public from the use of his invention. In addition, patent applications are maintained in secrecy, 35 U. S. C. § 122. Thus the mere existence of a secret patent application does not bring into issue federal patent pre-

emption and certainly does not justify the drastic step of striking down state contract law.*

In addition, the majority misconstrued the relationship between the patent application and the contract here. The Quick Point license was not a license of Aronson's patent application, but existed separate and apart from it. In the original agreement Quick Point stated it would have "the exclusive right to make and sell keyholders of the type *shown* in your application. . . ." and would pay royalties "on all keyholders which we make in accordance with the design *shown* in your application. . . ." (App. 23; emphasis added). As Quick Point's own patent attorney recognized years after the agreement was signed, the license agreement was:

> ". . . in respect of the *disclosure* of . . . [the] application (*not* merely in respect of its claims) and that *even if no patent is ever granted* . . ., Quick Point Pencil Company is obligated to pay royalties in respect of any key holders manufactured by it in accordance with any disclosure of said application." (App. 39; emphasis added).

The only relevance the patent application had to the original disclosure and agreement was as a vehicle to describe the article licensed to Quick Point and to identify it for purposes of the contract. This could have as easily been accomplished by some other means and that fact alone should not be the deciding factor in this case.

There is no doubt that Quick Point and Aronson hoped that a patent would issue and intended that Aronson should prosecute the application. However, the parties recognized that no patent might issue and provided for that event in the addendum by reducing the royalties after a reasonable time if no patent issued. In any event, Quick Point clearly expressed its desire to have the right to manufacture the article disclosed to it in

* If the existence of the patent application is the fact which renders this contract invalid, then the decision of the majority below stands only to further discourage patent applications and thus directly conflicts with the purpose of the patent law.

confidence and wanted to do so irrespective of whether a patent ever issued or not. It was willing to pay a 5% royalty during the pendency of the application and thereafter if a patent should issue; but Quick Point also was willing, in return for the disclosure and the head start it gave Quick Point over the rest of the industry, to pay a 2½% royalty for as long as it sold the keyholder *even if no patent issued.*

Nothing in any of the cases relied upon by the majority below requires or even supports the conclusion that state law should be preempted to preclude enforcement of the state-created rights in this contract. The court of appeals pointed out that *Lear, Sears* and *Compco* all state that federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent (App. 69). But it does not follow from that statement that valid contracts providing for continuing payments cannot be entered into relating to ideas which subsequently come into general circulation. If read to mean that such contracts are invalid, the statement is simply too broad and amounts to a reversion to the discredited doctrine (based upon the *dictum* of Mr. Justice Black in his opinions in *Sears* and *Compco* and his partial dissent in *Lear*) that the federal patent law is exclusive—a doctrine soundly rejected by this Court in *Kewanee.*

III. The Decision Below Is Contrary to the Great Weight of Federal and State Authority.

In deciding to strike down this contract, the Eighth Circuit ignored both federal and state authority enforcing contracts involving disclosure of an unpatented idea or article which later became public. The leading authority upholding such a licensing agreement is the Second Circuit decision in *Warner-Lambert Pharmaceutical Co.* v. *John J. Reynolds, Inc.*, 178 F. Supp. 655 (S. D. N. Y. 1959), *aff'd*, 280 F. 2d 197 (2d Cir. 1960). As the dissent below noted, "this case is virtually on all fours with [*Warner-Lambert*]" (App. 75).

In *Warner-Lambert*, a manufacturer agreed in the 1880's to make payments to the discoverer of the formula for the liquid antiseptic Listerine so long as it continued to manufacture the product. By 1931 the formula had been published in several medical publications. Warner-Lambert filed suit in 1956 for a declaratory judgment that it was no longer obligated to make the payments since the formula was no longer secret. The district court held that the agreement did not require that the formula remain secret and therefore Warner-Lambert must abide by its agreement and continue the payments if it continues to manufacture Listerine. The court of appeals in a *per curiam* opinion affirmed on the opinion of the district court.*

Warner-Lambert relied, as does Quick Point, on patent and copyright cases limiting the time for which the licensee must pay royalties to the statutory term of the grant. The court found such cases inapplicable to a contract involving the disclosure of a secret because the statutory monopoly granted by the patent and copyright laws carries with it the concomitant demand that after the statutory period expires the patented or copyrighted material must be released to the public for general use. Thus, such contracts operate with that public policy as a background. 178 F. Supp. at 665. In trade secret contracts, however, the court found no such public policy and said the parties are free to contract in any manner which they determine for their own best interests. The trade secret may remain secret indefinitely or it may be discovered and used immediately by a third party who, of course, cannot be stopped by either party to the contract. That does not alter the obligation of the contract:

> "But that does not mean that one who acquires a secret formula or a trade secret through a valid and binding contract is then enabled to escape from an obligation to which he bound himself simply because the secret is discovered by a third party or by the general public. I see no reason why

* *Warner-Lambert* takes on particular significance here since the court there was applying the law of Missouri, 178 F. Supp. at 661, n. 5, which is applicable to this case under Erie R.R. Co. v. Tompkins, 304 U. S. 64 (1938).

> the court should imply such term or condition in a contract providing on its face that payment shall be coextensive with use. To do so here would be to rewrite the contract for the parties without any indication that they intended such a result." 178 F. Supp. at 665.

The district court also noted that the licensee in a trade secret contract takes the trade secret subject to the risk of disclosure. All the inventor does is "to convey the knowledge of the formula or process which is unknown to the purchaser and which in so far as both parties then know is unknown to anyone else". 178 F. Supp. at 666. With respect to what their relationship should be when the secret becomes known to the public, the contract between them is the final arbiter:

> "If they desire the payments or royalties should continue only until the secret is disclosed to the public it is easy enough for them to say so. But there is no justification for implying such a provision if the parties do not include it in their contract, particularly where the language which they use by fair intendment provides otherwise." 178 F. Supp. at 666.

Finally, the court looked to the conduct of the parties to reaffirm its upholding of the contract. Although Warner-Lambert claimed that the public disclosure of the formula (in 1931) terminated the contract, the court found that 25 years had passed before the contract was challenged. During that time the contract payments were faithfully made. In addition, in 1950 the company had reaffirmed the obligation in a letter. The court said that the continuing payments and reaffirmance of the agreement, long after the public disclosure, were "strong evidence that the obligation to pay still continues in force and effect . . .". 178 F. Supp. at 668.

The similarities between *Warner-Lambert* and this case are striking, and the same result there should obtain here. In this case, the contract clearly says that Quick Point will pay Aronson royalties on the sales of the invention "as long as you continue to sell same" (App. 25). The intent of the parties could not be more clear.

Further, as in *Warner-Lambert,* Quick Point continued to pay royalties long after the invention was made public (*i.e.,* for 19 years after it made its first sale which disclosed the invention and for 14 years after the patent application was abandoned). Also, years after the keyholder was made public, Quick Point repeatedly reaffirmed its obligation to continue making the payments (App. 39, 41).*

Warner-Lambert is prior, well-reasoned authority from the Second Circuit which the Eighth Circuit opinion diametrically opposes. This Court should exercise its supervisory powers over the federal courts and resolve this conflict in favor of the better-reasoned *Warner-Lambert* case.

Quick Point has urged that *Warner-Lambert,* having been decided before *Sears, Compco, Brulotte* and *Lear,* is no longer valid authority. This contention is frivolous, particularly in light of this Court's decision in *Kewanee.* Furthermore, cases decided since *Sears, Compco* and *Lear* have relied on the rationale of *Warner-Lambert.* See, *e.g., Shepard* v. *Commissioner,* 57 T. C. 600 (1972), where the U. S. Tax Court, considering the taxable nature of certain payments involving the transfer of technology, said:

> "In construing agreements where no provision has been made with respect to the termination of payments called for by such agreements, the courts have held that where such an agreement relates to a license under a patent or a copyright, the expiration of the patent or of the copyright constitutes an implied termination date. See [*Warner-Lambert*] and cases cited therein. However, the above-cited case clearly indicates that no such termination date may be implied where such an agreement relates to a trade secret, even when the subject of such an agreement becomes public knowledge." 57 T. C. at 613.

* There is still another similarity between this case and *Warner-Lambert.* There the court noted that the claim of invalidity of the contract was never hinted at or raised until after plaintiff's predecessor was merged into the present plaintiff and "new management" took control. 178 F. Supp. at 667. Here Quick Point never challenged the contract so long as G. A. Goessling, the original signatory to the contract, was president of Quick Point, but raised the point only after he died and his son, John G. Goessling, became the president.

See also *Bolt Associates, Inc.* v. *Alpine Geophysical Associates, Inc.,* 244 F. Supp. 458, 463 (D. N. J. 1965) (decided before *Lear* but after *Sears* and *Compco*) (*Warner-Lambert* teaches that "a person to whom a trade secret is disclosed must honor his contract even after the *res* of the secret has become widely and generally known").

In *Laff* v. *John O. Butler Co.,* No. 77-567 (Ill. App. Ct., 1st Dist., July 21, 1978), the court relied on *Warner-Lambert* to enforce a trade secret contract, specifically rejecting the suggestion that *Warner-Lambert* had been eroded by the holding in *Lear,* slip op. at 15-16. In *Sinclair* v. *Aquarius Electronics, Inc.,* 42 Cal. App. 3d 216, 116 Cal. Rptr. 654 (1974), the court, relying on *Kewanee,* held that a trade secret contract providing for continuing royalties is valid and enforceable even if the invention is no longer secret.* *Beattie* v. *Product Design & Engineering, Inc.,* 293 Minn. 139, 198 N. W. 2d 139 (1972), holds that where a royalty agreement licensing an invention is not conditioned on the issuance of a patent, the abandonment of the patent application does not absolve the licensee of the duty to continue its royalty payments on use of the invention. See also *John E. Mitchell Co.* v. *Anderson,* 520 S. W. 2d 927 (Tex. Civ. App. 1975) (continuing obligation to pay royalties in accordance with contract).

Cases have also recognized that where, as here, the contract of the parties does not provide that the issuance of a patent is a condition precedent to the operation of the agreement, the failure of a patent to issue, or its invalidity, is not material to enforcement of the contract. See, *e.g., Beattie* v. *Product Design*

* Two California trial court opinions, decided before *Kewanee* and *Sinclair,* appear to reject *Warner-Lambert* and are contrary to the holding of *Sinclair.* See Pollack v. Angelus Block Co., 171 U. S. P. Q. 182 (Cal. Super. Ct. 1971) and Choisser Research Corp. v. Electronic Vision Corp., 173 U.S.P.Q. 234 (Cal. Super. Ct. 1972). Presumably these cases are overruled by *Sinclair. See,* 1 Milgrim, TRADE SECRETS, § 1.06, at p. 1-29, n. 5.

& *Engineering, Inc., supra; Heltra, Inc.* v. *Richen-Gemco, Inc.*, 395 F. Supp. 346, 351-52 (D. S. C. 1975), *rev'd on other grounds*, 540 F. 2d 1235 (4th Cir. 1976) (invalidity of patent may not be raised, despite *Lear*, where agreement conveys patent application plus other consideration and royalty payments are due regardless of whether patent ever issued); and *Wrigley* v. *Compudyne Corp.*, 390 F. Supp. 478 (E. D. Pa. 1975) (where contract licensing a patent application, subsequently rejected, did not require issuance of a patent, court would not consider validity of patent issued under a later application in suit for royalties).

Finally, in *Richter* v. *Westab, Inc.*, 529 F. 2d 896, 900-02 (6th Cir. 1976), the court, in analyzing the problems presented under federal law for firms which sell ideas as their product, noted that the general rule of law is that ideas are not the property of anyone under federal law unless patented or copyrighted, citing *Lear*. But the court also indicated that contracts conveying such ideas are valid and enforceable even though the idea is not patented and is not a trade secret. *See also*, *Williams Petroleum Co.* v. *Midland Cooperatives, Inc.*, 539 F. 2d 694 (10th Cir. 1976) (finder's fee contract).

Thus, a number of other federal and state courts have recognized that the philosophy of *Warner-Lambert* is still valid and that *Sears* and *Lear* did not vitiate state contract law in this area.*

* Of course many cases decided before *Sears* and *Lear* upheld contracts in situations similar to this one. *See, e.g.*, Schnack v. Applied Arts Corp., 283 Mich. 434, 278 N. W. 117 (1938); Ingraham v. Schaum, 157 Pa. 88, 27 A. 404 (1893); Bancroft & Rich v. Union Embossing Co., 72 N. H. 402, 57 A. 97 (1903); Sunday v. Novi Equipment Co., 290 Mich. 539, 287 N. W. 909 (1939); Cammack v. J. B. Slattery & Bro., Inc., 241 N. Y. 39, 148 N. E. 781 (1925); Schonwald v. F. Burkart Mfg. Co., 356 Mo. 435, 202 S. W. 2d 7 (1947); Ekins v. Auto Arc-Weld Mfg. Co., 15 Ohio Op. 2d 300, 175 N. E. 2d 221 (C. P. 1955); Jones v. Ulrich, 342 Ill. App. 16, 95 N. E. 2d 113 (1950); Sandlin v. Johnson, 141 F. 2d 660 (8th Cir. 1944); Sloan v. Mud Products, Inc., 114 F. Supp. 916 (N. D. Okla. 1953); Muzak Corp. v. Hotel Taft Corp., 1 N. Y. 2d 42, 133 N. E. 2d 688 (1956); Chandler v. Roach, 156 Cal. App. 2d 435, 319 P. 2d 776 (1957); and Cain v. White, 377 S. W. 2d 90 (Ky. 1964).

These cases and the position of petitioner here are also consistent with the writings of legal scholars who have similarly concluded that loss of secrecy should not absolve the licensee of his contractual obligation to pay royalties. One leading commentator who has written extensively in the field of trade secrets has pointed out that:

> "Since a trade secret owner cannot offer protection to his licensees against independent developers, it follows that the consideration for a trade secret license is disclosure of the trade secret, not the right to continued enjoyment as in the case of a patent license. Your author has long been of the view that if the trade secret licensee cannot, in the license negotiations, bargain for royalty reduction or abatement upon the secret's becoming generally known or simply used by a few competitors, his continued use should bear royalty. That view has now been fully and articulately developed, in a manner showing the result encourages competition *and* respects contract obligations." 1 Milgrim, TRADE SECRETS, § 6.05[2] [d] at p. 6-144-45 (1977) (emphasis in the original).

That same commentator also has said:

> "If a trade secret licensee does not elect to condition continuing royalty on continuing secrecy, we may assume that the value of immediate disclosure weighed heavily. It is no more appropriate for a court of law, after the fact, to renegotiate a trade secret license agreement when the subject matter becomes generally known than it is for a court to set aside a contract to purchase a house, a car or tickets to the opera where the purchaser could have driven a better bargain but did not." Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters*, 46 N. Y. U. L. Rev. 17, 31 (1971).

See also, McCarthy, *"Unmuzzling" the Patent Licensee: Chaos in the Wake of Lear* v. *Adkins*, 45 Geo. Wash. L. Rev. 429, 472-75 (1977).

The statement of Mr. Justice Traynor of the California Supreme Court, concerning the law applicable to contracts involving abstract ideas is particularly apt here:

> "The policy that precludes protection of an abstract idea by copyright does not prevent its protection by contract. Even though an idea is not property subject to exclusive ownership, its disclosure may be of substantial benefit to the person to whom it is disclosed. That disclosure may therefore be consideration for a promise to pay. . . . Unlike a copyright, a contract creates no monopoly; it is effective only between the contracting parties; it does not withdraw the idea from general circulation. Any person not a party to the contract is free to use the idea without restriction.
>
> "Even though the idea disclosed may be 'widely known and generally understood', . . . it may be protected by an express contract providing that it will be paid for regardless of its lack of novelty." *Stanley* v. *Columbia Broadcasting System,* 35 Cal. 2d 653, 221 P. 2d 73, 85 (1950) (dissent); quoted in *Desny* v. *Wilder,* 46 Cal. 2d 715, 299 P. 2d 257, 266 (1956).

There is no doubt that the disclosure of Aronson's idea was valuable and important to Quick Point. Quick Point wanted Aronson's idea, with or without a patent, and even though it recognized that its sale of the keyholder would disclose it to the public and its competitors. Nevertheless, Quick Point has profitably manufactured and sold the keyholders pursuant to the contract for many years. As this Court said in *Lear,* "the law of contracts forbids a purchaser to repudiate his promises simply because he later becomes dissatisfied with the bargain he has made." 395 U. S. at 668. There is no reason in this case for that maxim not to be fully applicable. Quick Point should be forced to live up to its agreement.

IV. In Straining to Find This Contract in Conflict with Federal Patent Policy the Court Below Ignored This Court's Warnings Against Unwarranted Invalidation of Private Contracts and Thereby Unnecessarily Imperiled Numerous Commercial Relationships and Transactions.

The majority below concluded that the policy embodied in the federal patent law requires that a contract by which one conveys a then-secret idea to another in return for some form of continuing payment be invalidated once the idea becomes public if no patent covers it. The effect of this ruling is not merely limited to contracts precisely like the one between Aronson and Quick Point but instead applies to many contracts involving the transfer of ideas in return for continuing, as opposed to lump sum, payments.

The decision thus places in doubt a large number of contracts and business transactions. It would render unenforceable every agreement by which a previously undisclosed idea or article which is not patentable or protectable by copyright is licensed under continuing royalties. For example, before the decision below the person who conceived a format or concept for a television series, or a motion picture, or an advertising campaign, could sell that idea in return for continuing payments based upon its use. However, under this decision, all contracts concerning such matters are unenforceable because those ideas can neither be patented nor copyrighted, and they become fully known to the public upon first use. Similarly, one who takes any other type of business opportunity or idea to another and obtains an agreement for a "finder's fee" in the form of a percentage of the sales derived from it will be foreclosed from doing so because a business idea cannot be patented and necessarily becomes public upon its first use. Even the popular employee suggestion plans under which employees who make useful suggestions receive future payments based upon the profits derived or savings achieved from the use of their ideas would

be valid under the decision below only if the idea is patented or can be kept secret. Thus, the effect of the decision below on any contract involving unpatented intellectual property which has become public since the contract was entered into is devastating.

In placing such reliance on its view of the policy embodied in the federal patent law, the court of appeals has mounted that proverbial "unruly horse" of public policy about which Mr. Justice Burrough warned so many years ago:

> ". . . when once you get astride it you never know where it will carry you. It may lead you from the sound law." *Richardson* v. *Mellish*, 2 Bing. 229, 252; 130 Eng. Rep. 294, 303 (C. P. 1824).*

In trampling Aronson's contract rights, the court of appeals also ignored this Court's frequent admonitions against striking down private contractual arrangements on the grounds of public policy. See, *e.g., Baltimore & O. Ry.* v. *Voigt*, 176 U. S. 498, 505 (1900); *Twin City Pipe Line Co.* v. *Harding Glass Co.*, 283 U. S. 353, 356 (1931); *Steele* v. *Drummond*, 275 U. S. 199, 205 (1927); *A. C. Frost & Co.* v. *Coeur D'Alene Mines Corp.*, 312 U. S. 38, 44 (1941). Indeed, even in the area of antitrust policy where the Congress and the courts have forcefully emphasized the importance of freedom of competition from economic restraint the Court has counselled that caution must be exercised and "the federal courts should not be quick to create a policy of nonenforcement of contracts beyond that which is clearly the requirement" of the federal policy involved. *Kelly* v. *Kosuga*, 358 U. S. 516, 519 (1959). In *Kelly* the Court said:

> "Past the point where the judgment of the Court would itself be enforcing the precise conduct made unlawful by the Act, the courts are to be guided by the overriding general policy, as Mr. Justice Holmes put it, 'of preventing people from getting other people's property for nothing when they purport to be buying it.' " 358 U. S. at 520-21.

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* *See also* American Airlines, Inc. v. Louisville & Jefferson County Air Board, 269 F. 2d 811, 825 (6th Cir. 1959).

Thus, the federal courts should not interfere with ordinary enforcement of state-created contractual rights unless a conflict with federal patent policy is both unquestioned and significant. Here, the conflict is not merely insignificant, it is nonexistent.

This case itself provides a good example of why a court should not be anxious to invalidate a private bargain on the basis of some supposed conflict with federal patent policy. Quick Point gained access to Aronson's keyholder design and received an invaluable head start on its competitors in making and selling it. In fact, it was several years before its competitors began making it (App. 20, 57). Quick Point has enjoyed substantial sales of Aronson's keyholder for over 20 years. Even in fiscal 1975, the most recent year for which figures appear in the record, its sales, based upon royalties of 2½%, were over $850,000 (App. 19). Of course in 1956 when the contract was signed, neither Quick Point nor Aronson could have known that the keyholder would sell for five years, twenty years or more. Quick Point was sufficiently sure of its success to pay Aronson for the right to use the design disclosed to it in confidence, but it wanted to tie the amount of the payment to the success of the device. The form of payment was, in effect, to allow Aronson to participate in the profits from its sale. Had the device been unsuccessful, Aronson would have received very little and this case would never have been filed. But the device was successful and Quick Point should not be permitted to deny Aronson the participation it promised her as consideration for her disclosure simply because her idea turned out to be a very good one for Quick Point.

CONCLUSION

For all the reasons stated above and in the petition for certiorari, the judgment of the Court of Appeals for the Eighth Circuit should be reversed.

Respectfully submitted,

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